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POLAND: Walesa Speaks Out

The release yesterday of the apparent text of Walesa's speech for a planned demonstration in Gdansk tomorrow suggests the regime has told the former union leader that he will not be allowed to appear. [redacted]

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//In his statement Walesa urged that Solidarity supporters work hard to create independent unions representing workers, youth, and artists and to give meaning to the concept, sponsored by the regime, of self-management in the factories. He also attempted to build up flagging morale by saying that "ours will be the victory." In a private letter to the president of the International Labor Organization, Walesa expressed hope for renewed cooperation.// [redacted]

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A regime spokesman on Monday implied that Walesa would not be permitted to speak and also warned that any protests would violate martial law regulations and would be broken up. According to the Western press, police have already cordoned off the area around the Gdansk shipyard monument. [redacted]

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Meanwhile, Polish media late yesterday announced a government decision to cut back severely scientific and cultural exchanges with the US and to limit the issuance of visas to US officials. [redacted]

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Comment: Walesa apparently believes he must speak out--with discretion--if only to put pressure on the regime and to show he cannot be ignored. He may not push ahead with plans to speak at the street demonstration, instead making an appearance at a local church and allowing the Western press and the underground to disseminate the substance of his statement. By continuing to issue statements, however, he may be sorely testing the regime's tolerance. [redacted]

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Some sporadic street protests are possible tomorrow in some of the larger cities, despite regime warnings. The authorities will take the necessary security measures to prevent them from getting out of hand. [redacted]

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EL SALVADOR: Military Activity

The insurgents are keeping up their widely scattered harassing attacks. [redacted]

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The guerrillas have attacked additional towns and military outposts in central and eastern El Salvador, and they continue to hit economic targets. [redacted]

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[redacted]
[redacted] The US defense attache says the Army will launch a combined campaign with Honduran troops against the guerrilla stronghold in northern Morazan Department.//

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Neither side has gained a decisive military advantage over the past two months, but the intensity of the conflict has increased. Official military casualty reports show total government losses so far this year are 15 to 20 percent higher than in 1981. [redacted]

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Comment: Both the government and the insurgents anticipate heavier fighting in coming weeks, particularly in the northeast. The military standoff, however, is likely to persist over the short term. [redacted]

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SPAIN-UK-NATO: Raising the Stakes on Gibraltar

//Spanish Prime Minister Gonzalez's bid for a diplomatic breakthrough on Gibraltar could misfire.// []

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//Spain has opened the border with Gibraltar today to foot traffic, partially ending a 13-year blockade. This follows Gonzalez's public reaffirmation on Monday that Spain's continued membership in NATO is linked to resolution of its dispute with the UK over Gibraltar. Gonzalez also has said that he will raise the Gibraltar issue today with Secretary of State Shultz.// []

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Comment: //The British would support a formula under which a Spanish general would head a NATO command including Gibraltar if Spain would remain in the NATO military structure. At the same time, however, they would resist any attempt to link Spanish membership to an end of British sovereignty over Gibraltar. Even if negotiations are resumed, London is pledged to respect the wishes of the strongly pro-British population of Gibraltar.// []

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//Gonzalez probably would like credit for solving this issue, and he may view the linkage as a means of increasing his leverage. On the other hand, he may believe that even a British rebuff could pay some dividends. For example, it might neutralize rightist opposition to a more independent foreign policy designed to appease the leftwing members of the Socialist Party who are disappointed by his moderate domestic policies.// []

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//Whatever his motivation, Gonzalez appears to have charted a risky course. A British rebuff could heighten nationalist sentiment, making it harder to remain in NATO and to pursue unambiguous pro-Western policies at a critical moment in Spain's bid to enter the EC. Gonzalez added to these risks on Monday with a further statement suggesting a link between Spanish membership in NATO and an Alliance defense guarantee for Spain's exclaves of Ceuta and Melilla in North Africa.// []

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SOUTH KOREA: Caution Toward Communist Contacts

[redacted] President Chun has ordered a "vague and temporizing" response to recent Soviet soundings on economic cooperation, including South Korean participation in Siberian development projects. [redacted]

When the Soviets finally responded to longstanding South Korean probes this fall and sent their first official visitors to Seoul, South Korean leaders were pleased and indicated an interest in followup contacts. The South Koreans, however, are now having second thoughts. Foreign Minister Lee reportedly is especially concerned that contacts with the USSR would enable the US to make a policy shift and initiate direct contacts with North Korea. [redacted]

Lee revealed similar concerns recently about the risks entailed in expanding contacts with Hungary. Lee is said to worry that France might use such a move as justification for proceeding with its decision in principle to recognize North Korea. [redacted]

Comment: //The South Koreans have been trying for years to develop relationships with Communist states as a means of strengthening their own international standing and moving ahead in the diplomatic competition with P'yongyang. Now that some potential gains have appeared, however, Seoul will be reluctant to proceed as long as it fears that such movement will open the door to Western approaches to North Korea.// [redacted]

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TANZANIA: Implications of Economic Crisis

//Tanzania's economic troubles are steadily worsening, and the possibility of antiregime violence has increased.// []

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//The US Embassy reports that signs portending a collapse of a major portion of the economy are more ominous than at any time in the past. The principal cause is a severe shortage of foreign exchange and Tanzania's consequent inability to import vital commodities.// []

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//The foreign exchange problem is mainly caused by declining crop production due to drought and mismanagement, falling prices for exports, rising costs of oil and other imports, and a mounting foreign debt burden. The government's reluctance to cut costly social programs has aggravated the situation.// []

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//Living standards for most Tanzanians are deteriorating steadily. There are extensive shortages of food, medicines, and other important commodities, and transportation systems are breaking down. Inflation has risen steadily since the late 1970s, and unemployment is severe.// []

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Comment: Despite the economic decline, no major threat to President Nyerere's position has developed yet. He is a skilled politician and is widely regarded as the only leader able to hold the country together. []

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Military leaders and other potential plotters so far are reluctant to take responsibility for the country's problems, but trouble could occur with little warning. Discontent almost certainly is increasing among junior military personnel, and resentment is growing in Zanzibar over mainland Tanzania's political and economic domination. Nyerere could be challenged by the military if he were compelled to use the armed forces to suppress a separatist outbreak on Zanzibar. []

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NICARAGUA: Debt Payment Planned

The Sandinista government has secured loans that will enable it to meet a \$40 million interest payment on foreign debt due on Friday. According to press reports, a US-led banking group will supply short-term credits of \$25 million to \$30 million that are tied to export earnings.

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Comment: //These actions will not diminish Nicaragua's economic problems or improve its credit-worthiness. Managua probably will threaten to refuse to honor future obligations unless the banks continue to extend credits.

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IRAN: Election Results

The principal factions of the clerical regime are represented in the new Assembly of Experts chosen in the nationwide election last Friday. The Assembly, which will eventually choose a successor to Ayatollah Khomeini, will be led by President Khamenei, speaker of parliament Rafsanjani, and judiciary head Musavi-Ardabili. The regime claimed a large turnout of voters.

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Comment: The Assembly will include many officials who have long differed over what leadership should succeed Khomeini when he departs, and it probably will not try to decide the question in the near future. Khomeini's health does not seem to be a factor. His private meeting with the Turkish Ambassador on 2 December--his first with a diplomat in 12 months--may have been partly intended to counter rumors that the election was prompted by concern about his health.

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Special Analysis

MEXICO: De la Madrid's Economic Policies

//Since his inauguration on 1 December, President de la Madrid has taken decisive action to deal with the economy. He has introduced austerity measures and has announced he will ratify the IMF agreement. His economic cabinet promises to be more cohesive and is more likely to support austerity initiatives than that of the previous administration. Much more needs to be done, however, and de la Madrid's ability as a political leader remains in doubt.//

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The President is trying to prepare the public for further austerity measures and is stressing IMF support would shorten the period of difficulty. His inaugural address was aimed primarily at persuading foreign creditors and businessmen in Mexico that he will work on the economic crisis with determination and that he will require equal sacrifice from all sectors of society. He nonetheless has pledged to protect the jobs and consumption levels of the most needy.

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De la Madrid has moved to disassociate himself from Lopez Portillo, restore national unity, and develop his own political style. His opposition to "financial populism" has been underscored by gestures of support to business and the military.

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The background of de la Madrid's main economic advisers indicates the ideological divisions that characterized the last two years of the Lopez Portillo administration will no longer interfere with policy decisions. All members of the economic cabinet are technocrats from the center of the ruling party and close associates of de la Madrid. Most of them were trained at the Bank of Mexico, and all of them have previous experience in the economic ministries.

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Despite the unity among economic advisers, differences of opinion are likely to arise between political and economic advisers over how to carry out the austerity measures required by the IMF. They may disagree on how

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to keep spending down as called for in the budget for 1983. []

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Initial Austerity Measures

De la Madrid raised prices substantially on gasoline and most other fuels on his second day in office. The price hikes will increase public revenues and cut fuel subsidies in half. According to Mexican officials, the higher prices will cause domestic oil consumption to drop by 5 percent in 1983. []

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In other IMF-mandated moves, the government has raised interest rates on domestic bank deposits to encourage saving. During the last months of the previous administration, interest rates had been cut by 10 percentage points and saving had plummeted. []

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Policymakers indicate they plan to increase interest rates further. The hikes, however, probably will still lag behind the inflation rate, and, with such rates, it will be difficult to reduce capital flight. The government also has proposed to raise taxes. []

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Commerce Minister Hernandez, who recognizes price controls have been ineffective, has announced plans to remove price restrictions on at least 3,000 controlled items. Controls will continue on basic commodities. []

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The Commerce Minister also has indicated the administration plans to encourage foreign investment, especially in industries that will produce goods for export and by firms that will bring in new technology. No foreign company, however, will risk investing while large financial uncertainties remain. []

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Relations With Foreign Creditors

Mexico City proposed to private foreign bankers last week that principal payments on public-sector debt due in the next two years be rescheduled. It requested a four-year grace period and repayment through 1990. []

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Because of the austerity measures Mexico has taken and with the rescheduling proposals, the IMF is urging foreign bankers to agree by today to lend Mexico \$5 billion in new funds for 1983. If the bankers agree, the IMF has indicated it will favorably consider the loan agreement at a meeting on 23 December. [REDACTED]

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More belt-tightening measures are needed, however, to meet IMF quarterly targets. The steps would include higher transportation fares; increased telephone electricity, and other government service rates; and tax hikes. [REDACTED]

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The government announced it will unify the official rates of exchange and allow a free exchange market on 20 December. This will immediately lead to a substantial devaluation of the peso. [REDACTED]

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Outlook

De la Madrid seems to be off to a good start and may be able to stretch the honeymoon out until his economic program begins to have an effect. Nonetheless he faces formidable domestic political forces as well as enormous economic problems. At minimum, he is almost certain to have to renegotiate some targets with the IMF. [REDACTED]

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In addition, the President faces the possibility of potentially serious challenges to the political and social order. [REDACTED]

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